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Central Europe Economics

Large EU fund inflows coming

OUR TAKE

This year is likely to see exceptionally large inflows of EU funds to Central Europe. Hungary stands out as a country that can potentially benefit the most, if its access to EU funds gets unblocked. This can boost growth, ease fiscal pressures, lead to increased banking sector liquidity and substantially higher FX reserves. Inflows will also play an important role in other countries, in particular Poland and Romania.

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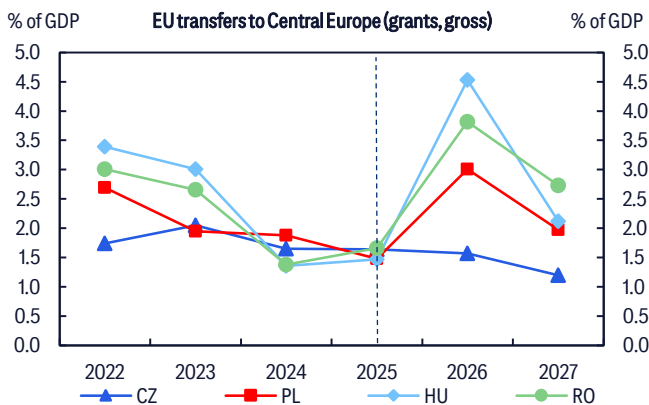
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2026 is set to be a year of substantial EU fund inflows into Central Europe, driven by a combination of three key factors. Firstly, the deadline for utilizing funds from the post-pandemic Recovery and Resilience Facility (RRF) is this year, and EU member states need to apply for these resources promptly. The likelihood of the deadline being extended is currently low. Secondly, Central and Eastern European countries are expected to receive initial loan payments from SAFE, a new initiative designed to finance defense-related projects. Funds from this source are anticipated to begin flowing in the coming months, with countries potentially receiving up to two tranches in 2026. Lastly, the absorption of cohesion funds from the 2021-2027 financing period is projected to accelerate.

Hungary

The increase in EU fund inflows in 2026 will be particularly noticeable in Hungary. In recent years, the country faced a blockade of nearly EUR 20 billion in funds due to concerns over the rule of law. However, the new government, formed after the April elections, has prioritized unblocking these funds. On 29th May Prime Minister Magyar concluded negotiations with the EU, paving the way to EUR 16.2 bn of funds, including money from RRF (EUR 9.8bn) and from cohesion funds (EUR 6.4bn). The unblocking of funds is conditional on reforms that were agreed in Brussels (building anti-corruption ‘architecture’, Hungary joining the European Union Prosecutor’s Office and changes in public procurement law). These reforms need to be finished before the end of August and while the deadline is exceptionally challenging, we observe goodwill from both sides in the negotiations. Given this, we anticipate that Hungary should be able to regain access to RRF grants, cohesion funds, and SAFE loans. If this assessment holds true, the total amount of EU funds flowing into Hungary in 2026 could increase by as much as 5.1% of GDP compared to 2025, comprising 3.2% of GDP in grants and 1.9% in loans. Should the government also meet the criteria for RRF loans, an additional 1.5% of GDP could be added (Figure 2).

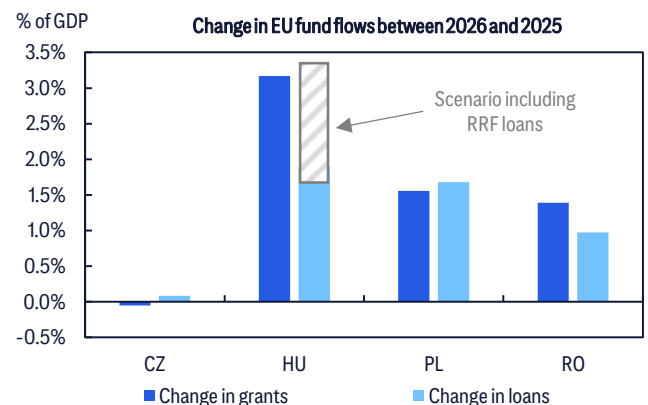
Figure 1. 2026 is likely to see a sharp increase in EU fund inflows to Central Europe



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Source: European Commission, Citi Handlowy Estimates

Figure 2. Hungary stands out as a country that can benefit most from EU funds, followed by Poland and Romania



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For Hungary the blue bar does not include RRF loans. The impact of RRF loans is presented as a grey box.

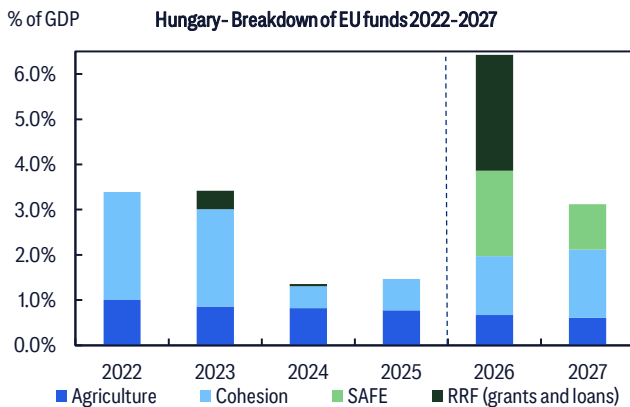
Source: Citi Handlowy Estimates, European Commission

The sharp rise in inflows is expected to have significant macroeconomic consequences. Firstly, the EU funds will provide a boost to the economy, supporting investment growth while helping to limit the budget deficit and thereby reducing government funding needs. A 3% of GDP increase in grants compared to 2025 suggests that GDP growth in 2027 has the potential to exceed 3% for the first time since 2022 (for context, the average annual GDP growth in 2023-2025 was 0.2%).

Secondly, the influx of EU funds will lead to a notable increase in foreign exchange reserves and banking sector liquidity. As a rule, the Hungarian government exchanges the incoming euros at the central bank and consequently the NBH ‘prints’ forints, which leads to an increased money supply (reserve money) and potentially higher sterilization costs. The creation of new deposits is also likely to boost the banking sector’s demand for bonds. The mirror image of this process on the central bank’s balance sheet is a rise in FX reserves. Currently, the NBH’s official reserves amount to nearly EUR 61 billion, and the inflow of grants from the EU could add over EUR 8 billion in one year (this is a conservative estimate - loans from the EU are not included here as some will be spent abroad). All in all, this will significantly enhance the central bank’s ability to intervene in the market if the need arises.

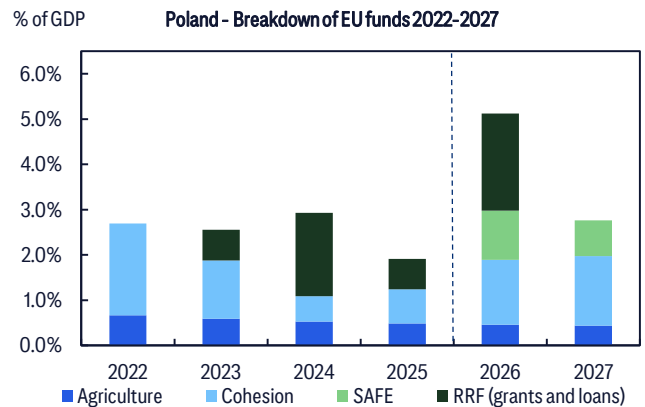
We believe these changes are positive for the country’s credit risk and we believe this may lead to an improvement in Hungary’s rating outlook from negative to positive, followed at some point in the coming quarters by an outright rating upgrades.

Figure 3. In Hungary, the unblocking of EU funds would open doors to even up to 6.5% of GDP of inflows



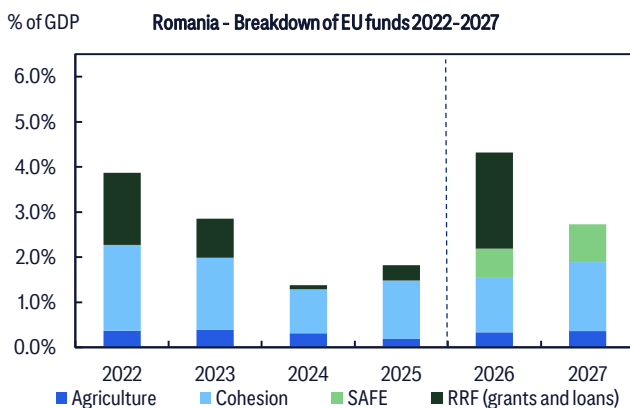
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Source: European Commission, Citi Handlowy Estimates

Figure 4. Our relatively optimistic growth forecasts for Poland rely on expectations of EU-funded investment



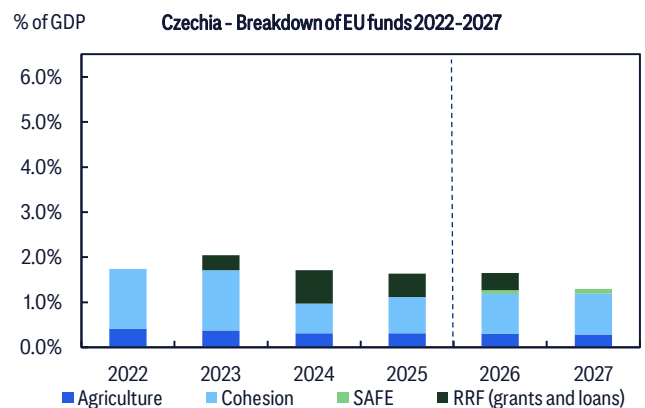
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Source: European Commission, Citi Handlowy Estimates

Figure 5. The boost in EU fund inflows reflects mainly money from the post-pandemic RRF and from SAFE



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Source: European Commission, Citi Handlowy Estimates

Figure 6. Czechia will likely see relatively stable inflow in 2026 and 2027, but significantly lower than the rest of CEE



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Source: European Commission, Citi Handlowy Estimates

Poland

Although in Poland the increase in EU inflows is projected to be smaller than in Hungary, it is still expected to be very significant. According to our estimates, Poland can anticipate EU inflows to rise by approximately 3% of GDP as compared to 2025, with roughly half of that increase attributed to grants. Both

the RRF and SAFE will be the primary sources of funds in 2026. However, the inflow is expected to decrease significantly in 2027, following the expiry of the post-pandemic Recovery and Resilience Facility.

We believe that EU fund inflows will be a crucial factor in stabilizing Poland's economic growth in 2026, despite an unfavorable external environment related to the war in Iran. The anticipated drop in EU funds in 2027 will probably lead to a GDP slowdown, but the impact may be less severe than widely expected. Although RRF funds can only be disbursed by the European Commission until the end of 2026, the Polish government may plan to spend the money over a longer period, transferring funds to beneficiaries only during 2027.

Romania

Despite risks from political turmoil, we expect a strong commitment to taking the necessary steps to secure the majority of RRF funds before the deadline. Against this backdrop, we expect to see a notable pick-up in EU fund inflows this year from about EUR 7bn in 2025 to EUR 17.2bn (4.3% of GDP) in 2026.

Specifically, we anticipate EU fund inflows (RRF and Cohesion/Agriculture) to increase from about EUR 7bn in 2025 to EUR 14.7bn in 2026. RRF funds are projected to reach EUR 8.5bn in 2026, with EUR 5.5bn as grants. We also expect access to SAFE (Security Action for Europe), an instrument for defense investments, with pre-financing up to EUR2.5bn in 2026.

Czechia

EU fund absorption remains one of the key factors supporting Czech economic activity and, over the coming years, should represent an important stabilizing element particularly for the investment component of GDP. In 2026, government-sector investment activity should continue to be supported by a combination of traditional EU cohesion funds and the fading but still significant inflows from the Next Generation EU program through the Recovery and Resilience Facility (RRF). Following the exceptionally strong peak in RRF disbursements in 2024, we expect a gradual decline in inflows from EUR 1.9bn in 2025 to EUR 1.4bn in 2026, which is consistent with the expected phasing-out of the NGEU program. At the same time, however, we expect a gradual acceleration in the absorption of traditional cohesion funds, from EUR 2.6bn in 2025 to EUR 3.2bn in 2026, EUR 3.5bn in 2027 and EUR 3.8bn in 2028. This should significantly mitigate the negative impact of fading RRF inflows on domestic investment activity and the overall fiscal impulse.

The relatively stable trajectory of agricultural funds at around EUR 1.1bn annually is also consistent with the historically low volatility of direct payments and agricultural transfers. An additional pro-growth factor over the coming years could also stem from the gradual implementation of the new European SAFE defense financing instrument, where we expect disbursements to increase gradually from EUR 0.3bn in 2026 to EUR 0.5bn in 2028 and beyond. Given the ongoing rise in defense spending across Europe and the strengthening of European defense cooperation, this scenario appears realistic, particularly for economies with a relatively strong industrial and manufacturing base, such as the Czech Republic.

Overall, we therefore do not expect a sharp decline in total EU inflows into the Czech economy after 2026, but rather a gradual shift in their composition. While the importance of the NGEU program will fade rapidly, its role should increasingly be replaced by traditional cohesion funds and, to some extent, by new European defense financing mechanisms. The Czech Republic should therefore remain a net recipient of EU funds in the coming years, with European

financing continuing to provide meaningful support for public investment, infrastructure activity, and potential economic growth.

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